

OFFICE OF AUDITS & ADVISORY SERVICES



DEPARTMENT OF PUBLIC WORKS OFFICERS' TRANSITION AUDIT

FINAL AUDIT REPORT

Chief of Audits: [James L. Pelletier, CIA, CICA](#)
Senior Audit Manager: [Tom Philipp, CIA, CCSA](#)
Auditor I: [Kathleen Whitehead, CGAP, CICA](#)
Auditor I: [Geena Balistrieri, CPA, CICA](#)
Auditor I: [Angela Chen, CPA](#)

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County of San Diego

DONALD F. STEUER
CHIEF FINANCIAL OFFICER
(619) 531-5413
FAX (619) 531-5219

AUDITOR AND CONTROLLER
1600 PACIFIC HIGHWAY STE 166, SAN DIEGO, CALIFORNIA 92101-2478

TRACY M. SANDOVAL
ASST. CHIEF FINANCIAL OFFICER/
AUDITOR & CONTROLLER
(619) 531-5413
FAX (619) 531-5219

March 9, 2011

TO: Richard E. Crompton, Director
Department of Public Works

FROM: James L. Pelletier
Chief of Audits

FINAL REPORT: DEPARTMENT OF PUBLIC WORKS OFFICERS' TRANSITION AUDIT

Enclosed is our report on the Department of Public Works Officers' Transition Audit. We have reviewed your responses to our recommendations and have attached them to the audit report.

The actions taken and/or planned, in general, are responsive to the recommendations in the report. As required under Board Policy B-44, we respectfully request that you provide quarterly status reports on the implementation progress of the recommendations. The Office of Audits & Advisory Services will contact you or your designee near the end of each quarter to request your response.

Also attached is an example of the quarterly report that is required until all actions have been implemented. To obtain an electronic copy of this template, please contact Kathleen Whitehead at (858) 495-5653.

If you have any questions, please contact me at (858) 495-5661.

JAMES L. PELLETIER
Chief of Audits

AUD:KMW:aps

Enclosure

- c: Sarah E. Aghassi, Deputy Chief Administrative Officer, Land Use and Environment Group
Donald F. Steuer, Chief Financial Officer
Tracy M. Sandoval, Assistant Chief Financial Officer/Auditor and Controller
Kathleen A. Flannery, Group Finance Director, Land Use and Environment Group

INTRODUCTION

Audit Objective

The Office of Audits & Advisory Services (OAAS) has completed an officers' transition audit for the Department of Public Works (DPW). The objective of the audit was to determine if there is reasonable assurance that the outgoing officer, John Snyder, and incoming officer, Richard Crompton, took appropriate actions and filed complete and accurate reports as of September 29, 2010 in compliance with California Codes, County regulatory requirements, and County policies and procedures. These requirements were explained in the instruction letter provided to each officer.

Background

The County Charter requires that the OAAS conduct such an audit when County officers leave or assume office to determine if certain affidavits, authorizations, disclosures, and reports are properly completed and processed. These actions provide for an orderly transition of officers, establish proper accountability for public assets and promote the County's General Management System (GMS), including its key disciplines of accountability/transparency, fiscal stability, and continuous improvement.

Audit Scope & Limitations

The reports are the responsibility of the officer who signs them. The OAAS' responsibility is to provide an opinion on the reports based upon the audit.

This audit was conducted in accordance with auditing standards prescribed by the Institute of Internal Auditors, Inc., as required by California Government Code, Section 1236.

Methodology

OAAS reviewed all the reports filed by the outgoing and incoming officers and obtained supporting documentation to test completeness and accuracy of the reports.

Due to the size and complexity of the DPW, a judgmental sample of four organizational units (low orgs) within DPW was selected for asset testing, including:

- Spring Valley Sanitation District (SVSD) – Maintenance (96021);
- Inactive Waste Site – Maintenance (63950);
- Airport Division (76350) – Gillespie Field; and
- Road Maintenance – Division I Headquarters (53465).

For materials and supplies, OAAS selected four warehouses for testing:

- Sign Shop – Spring Valley;
- Road Structure Inventory – Lakeside;
- Division I Storeroom – Spring Valley; and
- Lakeside Borrow Pit.

AUDIT RESULTS

Summary

While required forms were filed in compliance with California Codes, County regulatory requirements, and County policies and procedures in connection with an officer's transition, multiple exceptions were identified in the reporting of fixed assets, minor equipment, and materials and supplies as noted below:

Finding I:

Inaccurate Fixed Asset Reports

OAAS tested a sample of 30 capital assets and could not obtain reasonable assurance that the Capitalized Property Inventory Certificates (AUD Form 504) are accurately presented. Exceptions were noted in the following areas:

- **Assets Reported But Not Sighted.** Out of the 20 capital assets sampled from the Oracle Fixed Asset Register Report (FARR),¹ 10 assets (50%) were unsighted, but were included on the certificates as sighted, including:
 - Two equipment items with a total cost of \$80,833 (SCOPS Equipment and Center SCLWC) reported on the FARR for SVSD – Maintenance. These items were also identified as unsighted on the previous two triennial inventories due to vague descriptions, but not subsequently removed from the Oracle Fixed Asset Module (OFAM);
 - Three computer equipment items totaling \$50,520 reported on the FARR for Airport Division – Gillespie Field. According to DPW, these items were transferred in 1999, when the County of San Diego outsourced their IT services; and
 - Five items with a total cost of \$33,269 reported on the FARR for Inactive Waste Site – Maintenance. DPW reported that these assets, along with seven additional assets (totaling \$1,638,546) were part of the sale of three landfills and the North County Resource Recovery Facility in 1997.
- **Assets Sighted But Not Reported.** A generator was sighted at the SVSD, but could not be identified on the FARR, nor did it have an asset tag affixed. In addition, OAAS noted a lighted runway closure marker, valued at \$20,000 at Gillespie Field that was not recorded. According to DPW, the marker was part of a Construction in Progress (CIP) project that ended in June 30, 2010 but a Form 253 was not submitted to add this asset to the FARR.
- **Missing Asset Tags.** Out of the sample of 30 assets, five assets (17%) did not have the required asset tags affixed, including the generator previously cited. According to DPW, asset tags are missing due to wear and tear and exposure to nature. However,

¹ This report was provided by the DPW as supporting documentation for each certificate (AUD Form 504).

these tags should be replaced as needed during the physical inventory process, or as noted.

- **Asset Location and Classification Inaccuracies.** Out of the sample of 30 assets, 18 assets (60%) had incorrect location codes on the FARR and one item was misclassified. Per the DPW Unit Manager – Financial Services, the location inaccuracies occurred as a result of the conversion to Oracle in FY 2002-03. Additionally, OAAS noted a Ramona Pump Station (a structure) was misclassified as Equipment/Machtools on the SVSD's FARR.

Most reporting errors were a result of inadequate policies and procedures related to updating the OFAM to reflect acquisitions, dispositions, and adjustments following triennial inventories. Additionally, DPW has insufficient monitoring/reviewing of the physical inventory process. As a result, the Fixed Asset Register Report is not being adequately maintained and balances on inventory certificates were inaccurately reported. In addition, missing or illegible asset tags can result in inaccurate or incomplete inventories due to the inability to confirm whether the sighted item is the item listed on the report.

The COSD Admin Manual requires department heads to be responsible for all County property (assets). These responsibilities include the identification and control of these assets, the filing of inventories, and the submission of reports as specified by the Board of Supervisors. In addition, the COSD Admin Manual requires identifying labels be obtained from Auditor and Controller (A&C) and attached to assets. The County of San Diego Fiscal Year-End Closing Manual requires the department to correct or enter any missing location code numbers to correspond with the physical location of the property using the code numbers established in the location code index.

Recommendations: To improve the accuracy and reliability of fixed asset reporting, DPW should:

1. Improve procedures for maintaining accurate reporting of all fixed assets, in accordance with the COSD Admin Manual. This should include, but not limited to:
 - a. Ensuring that acquisitions and dispositions are recorded properly;
 - b. Ensuring that the OFAM contains detailed descriptions to properly identify the assets; and
 - c. Ensuring that all fixed assets have an asset tag affixed.
2. Strengthen controls over physical inventory process. This should include, but not limited to:

- a. Designing and implementing new controls such as a review/approval by operational managers accountable for the assets and/or spot-checking the counts by DPW staff;
 - b. Enhancing training to staff conducting the physical inventory, including how to assess completeness and accuracy of inventory counts; and
 - c. Submitting a Form 253 for any necessary adjustments to the OFAM to A&C - Project, Revenue, and Grants Accounting Division following a triennial inventory or as noticed.
3. Submit Form 253 to correct discrepancies noted which includes removing missing assets, adding assets, updating locations for all valid assets with location inaccuracies, and reclassifying the Ramona Pump Station in the OFAM.

Finding II:**Inaccurate Minor Equipment Listing**

OAAS tested a sample of 28 minor equipment and could not obtain reasonable assurance that the Minor Equipment and Books Inventory Certificates (AUD Form 501) are accurately presented. Exceptions were noted in the following areas:

- **Assets Sighted But Not Recorded.** During a walkthrough of the facilities, seven out of thirteen randomly selected items (54%) were not recorded on the minor equipment listings, including:
 - One item, a Fujitsu FI-6320C flatbed document scanner, with a total cost of \$1,450 was sighted at an Inactive Waste office location, but not recorded;
 - Two items, a Toshiba TV and a DVD/VCR, were sighted at the Road Maintenance – Division I Headquarters, but not recorded. According to DPW, these items were purchased in 2003 and invoices were not provided, as a result, the value was not determined; and
 - Four items, two paint spraying machines, a generator, and a concrete saw, totaling \$10,742 were sighted at Gillespie Field in a tool shed, but not recorded.
- **Assets Recorded But Not Sighted.** Out of a sample of 15 minor equipment items, two (13%) items at an Inactive Waste office location were not sighted; a Fujitsu scanner (\$3,177.55) and a Kodak Slide Projector (\$550). According to DPW, these items have been salvaged but no Form 253 was provided.
- **Missing County of San Diego Decals.** Out of the sample of 28 minor equipment items, six items (21%) had no "Property of the County of San Diego" decals affixed to them, all items were located

at Gillespie Field and included three paint sprayers, a radio mobile VHF, a generator, and a concrete saw.

- **Incorrect Asset Classification.** At Road Maintenance – Division I Headquarters, OAAS noted a generator that was listed on the minor equipment listing at \$11,000. Since this item is over the \$5,000 threshold, this item should be classified as a fixed asset. According to DPW, this item appears to be part of the structure which was built in 1964 and should be classified as a fixed asset.
- **Incorrect Amounts Stated on the Minor Equipment Listing.** Out of the sample of 28 minor equipment items, the amounts listed on the minor equipment listing for two items (7%) did not reconcile with the invoiced amount. A paint spraying machine was overstated by \$232.50 on the Gillespie Field minor equipment listing and a digital camera was overstated by \$160 on the Inactive Waste minor equipment listing.

The errors related to minor equipment were caused by inadequate policies and procedures related to updating the minor equipment listings to reflect acquisitions, dispositions, and adjustments following triennial inventories. In addition, DPW has not sufficiently monitored/reviewed the physical inventory process. These errors resulted in the minor equipment balances being inaccurately reported on the inventory certificates.

In accordance with the COSD Admin Manual, department heads are required to maintain listings of minor equipment items for which they are responsible, adding new items as they are received and deleting items that are disposed of or no longer in use. Lists should identify the quantity and nature of the minor equipment items, their location and assigned value.

Recommendation:

To improve the accuracy and reliability of minor equipment reporting, DPW should:

1. Improve procedures for maintaining accurate reporting for all minor equipment items within DPW in accordance with the COSD Admin Manual. This should include but not limited to:
 - a. Removing/adding the item from the minor equipment list when a minor equipment item is salvaged or when an item is purchased; and
 - b. Ensuring that decals are affixed to all minor equipment.
2. Strengthen controls over physical inventory process. This should include but not limited to:

- a. Designing and implementing new controls such as a review/approval by operational manager accountable for assets, and/or spot-checking the counts by DPW staff;
 - b. Enhancing training to staff conducting the physical inventory, including how to assess completeness and accuracy of inventory counts; and
 - c. Making the necessary adjustments to the minor equipment listings following a triennial inventory or as noticed.
3. Add/remove the assets from the minor equipment listing for the assets noted above as sighted but not recorded and recorded but not sighted.
 4. Submit Form 253 to classify the generator as a fixed asset and remove item from minor equipment listing.
 5. Correct amounts listed on the minor equipment listing for the paint spraying machine and the digital camera to reflect the amount listed on the invoices.

Finding III:**Incomplete Materials and Supplies Certificates**

DPW did not report materials and supplies at all locations and omitted office supplies from certificates. Out of multiple high orgs, only one Materials and Supplies Inventory Certificate (Road Fund - A6850) was reported in the amount of \$1,162,503.61. According to DPW, in 2005, there was one centralized warehouse that held office supplies. Following 2005, the supplies were distributed to the different locations and the divisions were instructed to maintain inventory and order supplies, as needed. However, DPW has not conducted a physical inventory of these office supplies since 2005. As a result, the Materials and Supplies Certificates are incomplete. The COSD Year-End Manual requires every department to file a "Materials and Supplies/Minor Equipment and Books Inventory" by Location Report (Form YE-2d) each year.

Recommendation:

DPW should implement procedures to ensure that all materials and supplies are tracked and reported for each location.

COMMENDATION

The Office of Audits & Advisory Services commends and sincerely appreciates the courteousness and cooperation extended by the officers and staff of the Department of Public Works throughout this audit.

Office of Audits & Advisory Services

Compliance **R**eliability **E**ffectiveness **A**ccountability **T**ransparency **E**fficiency

VALUE

DEPARTMENT'S RESPONSE



County of San Diego

RICHARD E. CROMPTON
DIRECTOR

DEPARTMENT OF PUBLIC WORKS

5500 OVERLAND AVE, SUITE 310
SAN DIEGO, CALIFORNIA 92123-1295
(858) 694-2212 FAX: (858) 268-0461
Web Site: www.sdcountry.ca.gov/dpw/

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March 2, 2011

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OFFICE OF AUDITS &
ADVISORY SERVICES

TO: James L. Pelletier, Chief of Audits
Auditor and Controller

FROM: Richard Crompton, Director
Department of Public Works

DEPARTMENT RESPONSE TO AUDIT RECOMMENDATIONS: DEPARTMENT OF PUBLIC WORKS OFFICERS' TRANSITION AUDIT

We have reviewed the Preliminary Audit Report for Department of Public Works (DPW) Officers' Transition Audit, and following are our department's proposed action plan and completion dates for individual audit findings and recommendations.

Finding I: Inaccurate Fixed Asset Reports

OAAS Recommendation: To improve the accuracy and reliability of fixed asset reporting, DPW should:

1. Implement procedures for maintaining accurate reporting of all fixed assets, in accordance with the COSD Admin Manual. This should include, but not limited to:
 - a. Ensuring that acquisitions and dispositions are recorded properly;
 - b. Ensuring that the OFAM contains detailed descriptions to properly identify the assets; and
 - c. Ensuring that all fixed assets have an asset tag affixed.
2. Strengthen controls over physical inventory process. This should include, but not limited to:
 - a. Designing and implementing new controls such as a review/approval by operational managers accountable for the assets and/or spot-checking the counts by DPW staff;
 - b. Enhancing training to staff conducting the physical inventory, including how to assess completeness and accuracy of inventory counts; and

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c. Submitting a Form 253 for any necessary adjustments to the OFAM to Auditor and Controller (A&C), Project Revenue, and Grants Accounting Division (PRGA) following a triennial inventory or as noticed.

3. Submit Form 253 to correct discrepancies noted which includes removing missing assets, adding assets, updating locations for all valid assets with location inaccuracies, and reclassifying the Ramona Pump Station in the OFAM.

Action Plan:

DPW thanks the Auditor for its report and is in process of implementing stronger procedures for maintaining accurate reporting of all fixed assets in accordance with the COSD Admin Manual. The department is implementing a special project to strengthen controls over physical inventory process including:

- Updating the Director's Letter of Instruction (DLI), which outlines inventory procedures, to include the recommended actions;
- Conducting training on March 11, 2011 for appropriate staff and managers on proper procedures and how to assess completeness and accuracy of inventory counts; and
- Assigning all sections to confirm accuracy of inventories, and conducting internal audit and spot checks by April 28, 2011 to ensure strict compliance by staff responsible for inventory counts.

The department has also taken the following actions to correct the Oracle Fixed Asset Register Report (FARR):

1. For assets reported but not sighted, staff completed and submitted Form 253 to A&C to remove unsighted assets. A COSD Fixed Asset Report of Change was received from A&C indicating removal of these items:
 - Two equipment items with a total cost of \$80,833 for SCOPS Equipment and Center SCLWC for Spring Valley Sanitation Districts.
 - Three computers equipment totaling \$50,520. These items were salvaged when the County of San Diego outsourced IT services.
 - Five items unsighted with a total cost of \$33,269 and seven items with a total cost of \$1,638,546. These items were part of the sale of three landfills and the North County Resource Recovery Facility in 1997.
2. Two lighted runway closure signals with a value of \$40,000 were noted as sighted but not reported. Staff completed and submitted Form 253 to A&C. These items were installed as part of an improvement project completed in June 30, 2010, but were not added to the Fixed Asset Register Report (FARR) at that time. The two lighted runway closure signals are included in a new FARR dated February 10, 2011.
3. Staff completed and submitted a Form 253 to A&C requesting replacement tags for three items at the Spring Valley Sanitation Districts. The tags were missing from the equipment due to exposure to the elements.

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4. Staff completed and submitted a Form 253 to A&C requesting reclassification of Ramona street pump station from "equipment" to "structures."

Finding II: Inaccurate Minor Equipment Listing

OAAS Recommendation: To improve the accuracy and reliability of minor equipment reporting, DPW should:

1. Implement procedures for maintaining accurate reporting for all minor equipment items within DPW in accordance with the COSD Admin Manual. This should include but not be limited to:
 - a. Removing/adding the item from the minor equipment list when a minor equipment item is salvaged or when an item is purchased; and
 - b. Ensuring that decals are affixed to all minor equipment.
2. Strengthen controls over physical inventory process. This should include but not limited to:
 - a. Designing and implementing new controls such as a review/approval by operational manager accountable for assets, and/or spot-checking the counts by DPW staff.
 - b. Enhancing training to staff conducting the physical inventory, including how to assess completeness and accuracy of inventory counts; and
 - c. Making the necessary adjustments to the minor equipment listings following a triennial inventory or as noticed.
3. Add/remove the assets from the minor equipment listing for the assets noted above as sighted but not recorded and recorded but not sighted.
4. Submit Form 253 to classify the generator as a fixed asset and remove item from minor equipment listing.
5. Correct amounts listed on the minor equipment listing for the paint spraying machine and the digital camera to reflect the amount listed on the invoices.

Action Plan:

DPW agrees with Finding II of this report. The following actions taken to correct the Minor Equipment Listing Report:

For assets sighted but not recorded, staff:

1. Added to Inactive Waste Site Management minor equipment list the Fujitsu FI6320C flatbed scanner with a total cost of \$1,430.
2. Updated the minor equipment list to reflect the correct asset and approximate cost for Toshiba TV and DVD/VCR at the Road Maintenance Division 1 Headquarters.
3. Affixed minor equipment decals to the two paint spraying machines, generator, and concrete saw at the Gillespie Field.

For assets recorded but not sighted, staff corrected the Minor Equipment Inventory Report to remove items salvaged for Inactive Waste Site Management Fujitsu scanner and Kodak Slide Projector.

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There was one incorrect asset classification for minor equipment. Staff updated the Road Maintenance, Division I minor equipment list to reflect the fair market value of a generator originally listed at \$11,000 in the Minor Equipment Inventory so it is now \$500. This generator was purchased in 1964 and has fully depreciated. A&C staff recommended the reduction to its current fair market value.

Finding III: Incomplete Materials and Supplies Certificates

OAAS Recommendation: DPW should implement procedures to ensure that all materials and supplies are tracked and reported for each location.

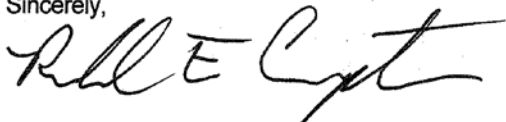
Action Plan

Staff completed a Materials and Supplies Inventory Certificate for the following DPW units: Land Development Administration, Private Development and Construction Inspection, Environmental Services, Inactive Waste Site Management Services, Wastewater Management Enterprise Fund, Airport Enterprise Fund, and the Watershed Protection Program.

Planned Completion Date: DPW recognizes the DPW Officer's Transition Audit by County A&C was only based on several spot checks, and as part of our corrective action, DPW must examine and make improvements to our entire fixed asset and minor equipment management programs. By April 28, 2011, DPW will train staff and managers, update the Director's Letter of Instruction, managers will complete review of Fixed Asset and Minor Equipment Inventory Report, and internal audits and spot checks will be completed.

Contact Information for Implementation: If you have any questions, please contact Amparo Suter at (858) 694-2124, or Donna Turbyfill at (858) 505-6470.

Sincerely,



RICHARD E. CROMPTON, Director
Department of Public Works

cc: Donna Turbyfill - Department of Public Works
Amparo Suter - Department of Public Works